

Financial Statements

**Ionia County Community
Mental Health**

September 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ionian County Community Mental Health	County Ionian
Audit Date 9/30/05	Opinion Date 12/6/05	Date Accountant Report Submitted to State: 3/27/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

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MAR 28 2006
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) ROSLUND, PRESTAGE AND COMPANY, PC			
Street Address 308 GRATIOT AVENUE		City ALMA	State MI
		ZIP 48801	
Accountant Signature <i>Roslund, Prestage & Company, P.C.</i>			Date 3/27/06

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INDEPENDENT AUDITOR'S REPORT

Ionia County Community Mental Health
Ionia, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Ionia County Community Mental Health (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2005, on our consideration of the Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages I-VII, and budgetary comparison information on page 26, are not a required part of the basic financial statements but are supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The other supplemental financial information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2005

**MANAGEMENT DISCUSSION
AND ANALYSIS**

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

The management of Ionia County Community Mental Health Services (ICCMH) presents the following discussion and analysis of the financial activities during the fiscal year 2004/2005. This discussion and analysis is provided to introduce the basic financial statements of the past year and to provide the reader information to help assess whether the financial position has improved or deteriorated as a result of the year's operation. Please read this section in conjunction with the auditor's report and with our financial statements, notes to financial statements and supplemental information taken as a whole.

The 2002/2003 fiscal year was the beginning of a contract period in which the Department of Community Health contracted for Medicaid services through a designated Prepaid Inpatient Health Plan (PIHP) which had to consist of 20,000 or more Medicaid covered lives. ICCMH, which was created as a Mental Health Authority on September 17, 1996 by action of the Ionia County Board of Commissioners, has entered into an affiliated cooperative agreement with Clinton Eaton Ingham Community Mental Health, Gratiot County Community Mental Health, Manistee Benzie Community Mental Health, and Newaygo County Community Mental Health. This affiliation is called the Community Mental Health Affiliation of Mid-Michigan.

Clinton Eaton Ingham Community Mental Health was designated as the PIHP in this cooperative agreement and was awarded the Medicaid contract for the 8 county region. Clinton Eaton Ingham Community Mental Health has sub-contracted with ICCMH to provide Medicaid covered services for the county of Ionia for the current fiscal year. ICCMH has approximately 7400 total Medicaid covered lives. The affiliation formed a base for working together to achieve administrative efficiencies and developing effective methodologies in delivering managed mental health services.

Ionia County Community Mental Health also holds a Managed Mental Health Supports and Services Contract with the Michigan Department of Community Health for general funds.

OVERVIEW OF FINANCIAL STATEMENTS

Basic financial statements, in accordance with generally accepted accounting principles (GAAP) according to GASB 34, require the presentation of two types of financial statements. These are authority-wide financial statements and fund financial statements.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Authority-wide financial statements include the statement of net assets and the statement of activities. These provide both long-term and short-term information, and present a broad view of the overall financial status in a manner similar to a private sector business. Information presented in these statements is on the accrual basis of accounting. Long-term assets are capitalized and depreciated. Long-term debt is recorded as a liability. Revenues are recorded when "earned" and expenses recorded when "incurred", without regard to the timing of cash receipts or disbursement.

The statement of net assets includes all assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of improving or deteriorating financial position. The statement of activities presents information showing how net assets changed during the year as a result of operating activity.

Fund financial statements contain individual groups of related accounts and are used to report current assets, current liabilities, fund balance, revenues and expenditures for specific activities or funds segregated for legal requirements or other governmental objectives. These are presented in more detail as compared to the authority-wide statements.

The fund financial statements are reported on the modified accrual basis of accounting. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized only to the extent that they are normally expected to be paid with current financial resources. Purchased capital assets are reported as expenditures in the year of acquisition. Issuance of debt is recorded as a financial resource with current year payment of principal and interest recorded as an expenditure.

Fund financial statements report information using the modified accrual basis of accounting. For ICCMH, the major funds consist of the general fund and the proprietary fund.

Governmental fund financial statements identify how day-to-day community mental health supports and services programs were financed in the short term as well as what remains for future spending.

Proprietary fund financial statements identify funds set aside in our Internal Service Fund for risk management. These funds are held as a self-funded insurance risk reserve to protect against unanticipated current and future financial exposures related to specialty supports and services at-risk contracts.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Summary of Net Assets

The following summarizes the assets, liabilities and net assets on an authority-wide basis as of September 30, 2005 and 2004.

Summary of Net Assets		
As of September 30, 2005 and 2004		
(In dollars)		
	<u>2005</u>	<u>2004</u>
Assets		
Current Assets	2,414,068	2,648,935
Restricted Assets	263,089	263,295
Capital Assets	<u>437,162</u>	<u>356,126</u>
Total Assets	3,114,319	3,268,356
Liabilities		
Current Liabilities	1,729,327	2,113,413
Noncurrent Liabilities – LT Debt	269,564	207,730
Noncurrent Liabilities – Comp. Absences	<u>167,802</u>	<u>178,907</u>
Total Liabilities	2,166,693	2,500,050
Net Assets		
Investment in capital assets	109,551	114,196
Restricted for capital purposes	-	-
Restricted for risk management	86,516	84,388
Unrestricted	<u>751,559</u>	<u>569,722</u>
Total Net Assets	947,626	768,306

Current financial position is defined as the excess of current assets over current liabilities. A positive current financial position is an indicator of financial strength and an increase in current financial position is an indicator of improving financial position.

The current financial position (excess of current assets over current liabilities) was a positive \$685 thousand, an increase of \$149 thousand or 28%, compared to prior year.

Current assets consist of cash and investments, accounts receivable, amounts due from others and prepaid expenses. These are available for current operations and to pay current obligations. Current liabilities include accounts payable, accrued payroll, related taxes and benefits, amounts due to others, deferred revenue and current portion of long-term liabilities.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Also at year-end, \$126 thousand of state general fund formula funding was unspent. Of this amount \$42 thousand is included in current liabilities as amounts due to the state as lapse and the remaining \$84 thousand as deferred revenue to be carried forward to next year.

Restricted assets consist of cash, investments and accrued interest receivable. These assets are restricted for payment of compensated absences, restricted for capital purposes (funded depreciation), and restricted for risk management. Restricted assets of \$263 thousand have remained constant from the prior year.

Assets restricted for capital purposes (funded depreciation) are enabled by the Michigan Mental Health Code and are intended to preserve a source of funds for capital asset acquisition and liquidation of capital related debt. Annual funding of this account is not to exceed the amount of depreciation expense and the maximum amount of this account is not to exceed the total of accumulated depreciation on capital assets. For fiscal 2005, the Authority fully funded its annual depreciation expense of \$62 thousand.

The remaining assets restricted for risk management are related to the risk obligations of the state general fund (formula funds) risk contract still maintained directly with the state. At year-end, the balance in this account was \$87 thousand and is funded to 4.7%, as compared to its contractual maximum annual risk exposure of 7.5% of the funds at risk.

Capital assets consist of property and equipment having an estimated useful life of more than one year. These assets are included on the statement of net assets at their original book value and restated to be net of the accumulated depreciation. As of the beginning of fiscal 2005, capital assets having an original book value of \$1.06 million were recorded, net of restated accumulated depreciation of \$625 thousand, for a beginning net book value of \$437 thousand.

In fiscal 2005, \$149 thousand was expended for office cubicles, building cabling, handicap accessible door and a storage shed. Depreciation expense on previously existing and newly acquired capital assets was \$62 thousand. The net change in capital assets was an increase of \$81 thousand for the year. When capital expenditures exceed depreciation expense, the net increase represents an investment or expansion of capital resources. Conversely, a net decrease represents a reduction in capital resources available for the future.

As of year-end, the net book value of capital assets was 41% of the original book value compared to 37% at the end of the prior year. This percentage is a measure of the relative age of property and equipment. If property and equipment is relatively new, this percentage will be high. Conversely, if the percentage is low, it means that property and equipment is relatively old.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Noncurrent liabilities consist of the liability for compensated absences that includes vested vacation and sick pay obligations as well as the long-term portion of notes payable used to acquire and improve buildings.

Restricted net assets include investment in capital assets, net of related debt, and amounts restricted for capital purposes (funded depreciation) and for risk management. These were discussed above.

Unrestricted net assets at the end of the year were \$752 thousand, an increase of \$183 thousand. Unrestricted net assets were 24% of total assets, up from 18% from the prior year. This increase is due to higher interest rates, Adult Benefit Waiver, and pharmaceutical administration reimbursements.

SUMMARY OF ACTIVITIES

The following summarizes the revenue, expenses and change in net assets on an authority-wide basis for the years ended September 30, 2005 and 2004.

Summary of Activities As of September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenue		
Medicaid specialty supports and services	6,832,495	6,630,119
State general fund priority populations	1,638,746	1,347,827
Adult Benefit Waiver	167,494	209,595
Program service revenue	262,292	235,041
Grants and earned contracts	296,508	409,968
County appropriation	163,000	163,000
Interest income	71,065	54,635
Other local income	<u>9,196</u>	<u>11,367</u>
Total Revenue	9,440,796	9,061,552
Expense		
Personnel expense	4,370,712	4,224,324
Operating expense	4,914,551	4,748,482
Interest expense	<u>19,221</u>	<u>15,888</u>
Total Expense	9,304,484	8,988,694
Excess of Revenue over Expense	136,312	72,858
Prior period adjustment	43,008	(2,621)
Transfer to PIHP	<u>-</u>	<u>(377,775)</u>
Change in Net Assets	179,320	(304,917)

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

Excess of revenue over expenses from activities for the current year was \$127 thousand or about 1% of revenue. This is an increase of \$45 thousand from the prior year net income of \$82 thousand.

Revenue for the year was \$9.4 million, an increase of \$400 thousand or 4.4% from the prior year.

Medicaid specialty supports and services revenue of \$6.8 million represents 72% of total revenue and increased \$202 thousand or 3.0% compared to the prior year. Unspent Medicaid subcontract funds of \$801 thousand are not revenue and are shown as amounts due to the PIHP.

State general fund priority population revenue (formula funding) of 1.8 million represents 19.1% of total revenue and increased \$249 thousand or 15.9% compared to the prior year. This funding is established by MDCH as a part of the legislative appropriation process under the Michigan Mental Health Code and is used to provide supports and services to indigent priority populations, including state facility utilization and other allowable expenses. Current year revenue includes \$76 thousand of prior year general fund deferred revenue. Unspent current year funds of \$126 thousand are not included in current revenue. Of this amount \$42 thousand is shown as a current liability due to be lapsed to MDCH and the remaining \$84 thousand is shown as deferred revenue available for next year.

Adult Benefit Waiver revenue of \$167 thousand represents 1.7% of total revenue and decreased \$42 thousand or 20% compared to the prior year. This funding was a new revenue source in fiscal year 2004 and was initiated at that time to take the place of the State Medical program. Any unused funds at the end of the fiscal year are treated as local funds. The decrease for the current year total funding is due to the MDCH discontinuing enrollments in the program for several months during the fiscal year. During fiscal year 2005, our local fund balance increased \$61 thousand as \$106 thousand was expensed for services.

Program service revenue of \$262 thousand includes charges for services for consumers not covered by Medicaid risk contracts or state general fund revenue sources. These represent 2.7% of total revenue and have increased \$27 thousand or 11.5% from the prior year.

Grants and earned contract revenue includes revenue sources for which the use of funds is restricted to a specific purpose. These represent 3.1% of total revenue and have decreased \$113 thousand or 28% over the prior year.

Ionia County Community Mental Health Services

Financial Statements and Management's Discussion and Analysis

For the year ended September 30, 2005

County appropriation revenue, interest income and other local income are available to meet state matching fund requirements. These revenue sources constitute 2.5% of revenue and have increased \$14 thousand or 6.2% from the prior year. The county appropriation was unchanged.

Total expense of \$9.3 million has increased \$316 thousand or 3.5% compared to the prior year. Personnel expense is 46.9% of total expense and has increased \$146 thousand or 3.5%. Operating expense is 52.8% of total expense and has increased \$166 thousand or 3.5%.

FUTURE OUTLOOK

For the 2003/2004 fiscal year the Department of Community Health revised the Medicaid funding distribution based on a regional rate. The Community Mental Health Affiliation of Mid-Michigan made the decision to continue to fund each affiliate based on the same percentage as the 2002/2003 fiscal year. This two year hold harmless period ended on September 30, 2005. The new funding formula for the affiliation became effective as of October 1, 2005. The overall impact for Ionia County Community Mental Health was a decrease in funding of \$552 thousand or 7.25% of our prior year Medicaid funding. In light of these funding changes, our administrative and overall expenses are being continually reviewed for both this current fiscal year and for fiscal year 2007.

The State of Michigan continues to struggle with financial difficulties. Federal deficits continue to place additional pressures on Medicaid funding. The effect of these difficulties on future funding for Ionia County Community Mental Health and specialty supports and services is unknown. However, at Ionia County Community Mental Health, we have been preparing for this scenario for several years. Since FY 2002, our agency has reduced expenses by over \$500,000 through staff attrition and reduction of staff administrative positions. Consequently, the decrease has not impacted our level of services. It is probable our annual cost settlement with the Department of Community Health will be budget neutral this year and next year due to the reduction of funds as discussed above.

Management anticipates zero growth in State revenues. While the financial position of the Authority is currently healthy. Management will continue to explore alternative funding sources where appropriate, analyze expenses, and implement cost efficiencies where possible. Ionia County Community Mental Health will continue to provide to our customers the best programs for the best value.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005 AND 2004

	Governmental Activities	
	2005	2004
Assets		
Current assets		
Cash and cash equivalents	\$2,220,981	\$2,260,143
Accounts receivable, net	27,724	211,311
Due from other governmental units	90,145	101,685
Prepaid expenses	75,218	75,796
Total current assets	2,414,068	2,648,935
Noncurrent assets		
Cash and cash equivalents - restricted	263,089	263,295
Capital assets - depreciable, net	437,162	356,126
Total noncurrent assets	700,251	619,421
Total assets	3,114,319	3,268,356
Liabilities		
Current liabilities		
Accounts payable	445,471	488,733
Due to other governmental units	957,398	1,345,040
Due to others	16,595	14,003
Deferred revenue	124,767	118,537
Accrued wages and other payroll liabilities	127,049	112,900
Current portion of long-term liabilities	58,047	34,200
Noncurrent liabilities		
Long-term liabilities	269,564	207,730
Compensated absences	167,802	178,907
Total liabilities	2,166,693	2,500,050
Net Assets		
Invested in capital assets, net of related debt	109,551	114,196
Reserved for risk management	86,516	84,388
Unrestricted	751,559	569,722
Total net assets	\$947,626	\$768,306

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005, WITH COMPARATIVE DATA

Functions	Expenses	Program Revenues		Net (Expense) Revenue and Changes Net Assets	2004
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Health & Welfare - Mental Health	<u>\$9,306,612</u>	<u>\$7,053,113</u>	<u>\$2,316,618</u>	\$63,119	(\$359,552)
General revenues					
Unrestricted investment earnings				71,065	53,173
Restricted investment earnings				<u>2,128</u>	<u>1,462</u>
Total general revenues and contributions				<u>73,193</u>	<u>54,635</u>
Change in net assets				136,312	(304,917)
Net assets - beginning of year				768,306	1,075,844
Prior period adjustment				<u>43,008</u>	<u>(2,621)</u>
Net assets - end of year				<u>\$947,626</u>	<u>\$768,306</u>

The notes to the financial statements are an integral part of this statement.

FUND FINANCIAL STATEMENTS

IONIA COUNTY COMMUNITY MENTAL HEALTH
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Assets		
Cash and investments	\$2,220,981	\$2,260,143
Accounts Receivable, Net	27,724	211,311
Due from other governmental units	90,145	101,685
Prepaid expenses	75,218	75,796
Cash and investments - restricted	176,573	178,907
Total assets	<u>\$2,590,641</u>	<u>\$2,827,842</u>
Liabilities		
Accounts payable	\$445,471	\$488,733
Due to other governmental units	957,398	1,345,040
Due to others	16,595	14,003
Deferred revenue	124,767	118,537
Accrued wages & other payroll liabilities	127,049	112,900
Total liabilities	<u>1,671,280</u>	<u>\$2,079,213</u>
Fund Balance		
Reserved for prepaid expenses	75,218	75,796
Unreserved	844,143	672,833
Total fund balances	<u>919,361</u>	<u>748,629</u>
Total Liabilities and fund balances	<u>\$2,590,641</u>	<u>\$2,827,842</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET
FOR GOVERNMENTAL FUNDS
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Total fund balance - governmental funds	\$919,361
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: Capital assets	1,062,037
Deduct: Accumulated depreciation	(624,875)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	
Add: Net assets of governmental activities accounted for in the internal service fund	86,516
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
Deduct: Loans payable	(327,611)
Deduct: Compensated absences	(167,802)
Net assets of governmental activities	<u><u>\$947,626</u></u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
REVENUES		
State grants		
DCH - general fund formula and categorical	\$1,638,746	\$1,347,827
Adult benefit waiver	167,494	209,595
PAS / ARR grant	4,732	9,375
DCH grant - housing assistance	7,252	4,979
MI child	9,018	11,044
Total state grants	<u>1,827,242</u>	<u>\$1,582,820</u>
Federal grants		
Wraparound grant	80,750	85,152
Juvenile justice diversion	36,876	43,715
Substance abuse	30,612	19,210
DCH grant - natural supports	-	37,956
DCH grant - jail diversion	-	69,574
Strong families/safe children	18,400	15,598
PAS / ARR grant	14,197	28,124
Respite	4,313	3,090
Drop in center	4,944	6,009
Total federal grants	<u>190,092</u>	<u>308,428</u>
Contributions - local units		
County funding	163,000	163,000
Total contributions - local units	<u>163,000</u>	<u>163,000</u>
Charges for services		
Medicaid - other	51,337	40,435
Medicaid - DCH contract	6,832,495	6,630,119
Client and third party pay	169,281	139,214
Total charges for services	<u>7,053,113</u>	<u>6,809,768</u>
Interest and rents		
Interest	71,065	53,173
Total interest and rents	<u>71,065</u>	<u>53,173</u>
Other revenue		
Contributions	6,374	4,312
Earned contracts	56,022	93,195
Miscellaneous	79,335	45,394
Total other revenue	<u>141,731</u>	<u>142,901</u>
Total revenues	<u>9,446,243</u>	<u>9,060,090</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
EXPENDITURES		
Health & welfare - mental health		
Personnel costs	\$4,370,722	\$4,267,125
Operating expenditures	4,865,350	4,623,050
Capital outlay	148,907	50,130
Debt payments - principal	55,668	21,852
Debt payments - interest	19,221	15,888
Total expenditures	9,459,868	8,978,045
Excess of revenues over (under) expenditures	(13,625)	82,045
Other financing sources (uses)		
Operating transfers out - to affiliates	-	(377,775)
Proceeds from loans	141,349	50,130
Total other financing sources (uses)	141,349	(327,645)
Excess of revenues and other sources		
Over (under) expenditures and other uses	127,724	(245,600)
Fund balance - beginning of year	748,629	996,850
Prior period adjustment	43,008	(2,621)
Fund balance - end of year	<u>\$919,361</u>	<u>\$748,629</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds \$127,724

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures
and the proceeds from loans to finance capital purchases as revenue. However,
in the statement of activities, the cost of those assets is allocated over
their estimated useful lives as depreciation expense and the
loan proceeds are recorded as a liability.

Add:	Capital outlay	148,907
Deduct:	Depreciation expense	(62,411)
Deduct:	Loan proceeds	(141,349)

Payment of principal on long-term debt is an expenditure in the governmental
funds, but it reduces long-term liabilities in the statement of net assets and
does not affect the statement of activities.

Add:	Principal paid on long-term debt	55,655
------	----------------------------------	--------

In the statement of activities, only the gain or loss on the sale of capital assets is reported,
whereas in the governmental funds, the proceeds from the sales increase financial resources.
Thus, the change in net assets differs from the change in fund balance by the cost of assets sold.

Deduct:	Loss on disposal of capital assets	(5,447)
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Some expenses reported in the statement of activities do not require the
use of current financial resources and therefore are not reported as
expenditures in the funds.

Add:	Decrease in accrual for compensated absences	11,105
------	--	--------

An internal service fund is used by management to cover the risk of
overspending the Managed Care Specialty Services Program contract.
The net revenue (expense) of the fund attributable to those funds is
reported with governmental activities.

Add:	Interest income from governmental internal service fund	2,128
------	---	-------

Change in net assets of governmental activities	\$136,312
---	-----------

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
SEPTEMBER 30, 2005 AND 2004

		Internal Service Fund	
		2005	2004
Assets			
Cash and cash equivalents		<u>\$86,516</u>	<u>\$84,388</u>
Net assets			
Restricted		<u>\$86,516</u>	<u>\$84,388</u>
Total liabilities and net assets		<u>\$86,516</u>	<u>\$84,388</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Non-operating revenue		
Interest income	\$2,128	\$1,462
Operating transfers		
Transfers out to other governmental units	-	-
Change in net assets	2,128	1,462
Net assets, beginning of year	84,388	82,926
Net assets, end of year	<u>\$86,516</u>	<u>\$84,388</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005 AND 2004

	Internal Service Fund	
	2005	2004
Cash flows from investing activities		
Interest revenue	<u>\$2,128</u>	<u>\$1,462</u>
Net increase (decrease) in cash and cash equivalents	2,128	1,462
Cash and cash equivalents - beginning of year	<u>84,388</u>	<u>82,926</u>
Cash and cash equivalents - end of year	<u><u>\$86,516</u></u>	<u><u>\$84,388</u></u>
Reconciliation of operating income to net cash provided by (used for) operating activities:		
Operating income (loss)	-	-

The notes to the financial statements are an integral part of this statement.

**NOTES TO THE
FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Ionia County Community Mental Health (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates under the provisions of Act 258 - Public Acts of 1974 (the Michigan Mental Health Code), as amended. The Authority arranges for or provides supports and services for persons with developmental disability, adults with severe mental illness, children with serious emotional disturbance, and individuals with addictive disorder and substance abuse. These supports and services are made available to residents of the County of Ionia who meet eligibility and other criteria. As the community mental health services provider for Ionia County, the Authority also serves to represent community members, assuring local access, organizing and integrating the provision of services, coordinating care, implementing public policy, ensuring interagency collaboration, and preserving public interest.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the activities of the Authority. *Governmental activities* normally are supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Ionia County Community Mental Health
Notes To The Financial Statements

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements - The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

An exception to the "60 day" rule is the recognition of certain patient fee revenues and the related receivables. The Authority has elected to recognize these revenues on the cash basis of accounting, which is in compliance with the Department of Community Health's revenue recognition formula. The difference between the cash basis of accounting and modified accrual basis of accounting for these revenues are not material to the financial statements.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, 2005, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Ionia County Community Mental Health
Notes To The Financial Statements

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The financial activities of the Authority that are reported in the accompanying financial statements have been classified into the following major governmental and proprietary funds.

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund - This fund represents amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Comparative Data

Comparative total data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the function level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits, and certificates of deposit.

Michigan Compiled Laws, Section 129.91, authorized the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Authority's deposits are in accordance with statutory authority.

Receivables and Payables between Funds

Activity between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to / from other funds" (i.e. the current portion of interfund loans) or "advances to / from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due / to other funds". Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Ionia County Community Mental Health
Notes To The Financial Statements

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Equipment and Furnishings	5-10
Computers	5
Vehicles	4
Buildings and Improvements	10-30
Land	Not Depreciated

Ionia County Community Mental Health
Notes To The Financial Statements

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability. These restricted assets are held in a separate cash account with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post-employment benefits are examples of the latter.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Inpatient / Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on 1) the number of clients at each facility, 2) the number of days each client is at each facility, and 3) the daily rate charged for each facility.

The Authority is not billed for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60-day period after year-end. Also, the actual cost may vary from the estimated due to reimbursements from third party payers that are applied to the total cost before the billings are sent to the Authority.

Deferred Revenue

Deferred revenues arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Ionia County Community Mental Health
Notes To The Financial Statements

Grants

Grants from the Department of Community Health (DCH) and other governmental units are recorded as revenues when the actual expenditures financed by the grant are incurred. Excess funding is treated as deferred until used or until retrieved by the source.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted at the functional level and on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Authority does not maintain a formalized encumbrance accounting system. The budgeted revenues and expenditures, as presented in this report, include any authorized amendments to the original budget as adopted.

Excess Of Expenditures Over Appropriations

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended September 30, 2005, the Authority incurred expenditures in excess of the amounts appropriated as shown on the schedule in the back of this report as unfavorable variances.

NOTE 3. DETAIL NOTES

Cash and Cash Equivalents

At September 30th the carrying amount of the Authority's cash and cash equivalents are as follows:

Cash and Cash Equivalents	2005	2004
Petty Cash	\$750	\$770
Checking, Money Market, & Liquid Asset Accounts	1,007,028	1,264,498
Certificates Of Deposit	1,213,203	986,558
Cert. Of Deposit – Restricted, ISF Fund	86,516	84,388
Cert. Of Deposit – Restricted For Comp. Absences	167,802	178,907
Cash – Restricted for Employee's Flexible Benefits	8,771	8,317
Totals	\$2,484,070	\$2,523,438

Ionia County Community Mental Health
Notes To The Financial Statements

At year-end, the carrying amount of the Authority's cash deposits was \$2,483,320 and the bank balance was \$2,494,768. Of the bank balance, \$200,000 was covered by federal depository insurance and the remaining balance was uninsured and uncollateralized.

The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and accesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories.

Restricted Cash and Cash Equivalents

The Authority has charged to the Department of Community Health the vested portion of compensated absences as of September 30th. The Authority holds, in a separate bank account, funds restricted for the payment of the compensated absences as they come due.

Cash and Investments in the Internal Service Fund have been restricted for the expected future risk corridor requirements of the MCSSP contract. See additional note below.

Funds have also been restricted for the payment of employee's flexible benefits.

Accounts Receivable

Accounts receivable represents amounts due from third party payers, patients, and others.

Due from Other Governmental Units

Due from other governmental units as of September 30th consists of the following:

Due From:	2005	2004
State of Michigan – DCH, Wraparound	\$25,925	\$21,581
State of Michigan – DCH, Jail Diversion	36,876	18,050
State of Michigan – FIA, SF/SC	1,783	1,259
State of Michigan – DCH, Housing Assistance	1,300	2,455
State of Michigan – Juvenile Justice	1,042	10,976
State of Michigan – OBRA	2,435	10,999
State of Michigan – FIA, CPCP Bridges	652	2,087
Juvenile Court	-	5,938
Mid-South – Substance Abuse	-	3,956
Other	20,132	24,384
Total	\$90,145	\$101,685

Ionia County Community Mental Health
Notes To The Financial Statements

Prepaids

Prepaid expenses represent payments for the following expenses that will benefit future periods:

Prepaid	2005	2004
Insurance	\$64,313	\$56,791
Dues & Conferences	7,479	9,095
Other	3,426	9,910
Total	\$75,218	\$75,796

Capital Assets

Depreciable capital asset activity for the year ended September 30, 2005 was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Vehicles	\$329,728	-	(\$35,629)	\$294,099
Furniture, Fixtures & Equip.	75,038	\$148,907	(5,828)	218,117
Computers	228,081	-	-	228,081
Buildings	272,120	-	-	272,120
Land	49,620	-	-	49,620
Sub-total	954,587	148,907	(41,457)	1,062,037
Accumulated Depreciation	(598,461)	(62,411)	35,997	(624,875)
Totals	\$356,126	\$86,496	(\$5,460)	\$437,162

Depreciation expense was charged to Health and Welfare – Mental Health Program.

Due To Others

Due to others represents funds held on behalf of consumers in the amount of \$7,824 and flex benefits held on behalf of employees in the amount of \$8,771.

Ionia County Community Mental Health
Notes To The Financial Statements

Deferred Revenue

The amount reported as deferred revenue represents the 5% carry forward allowance for the general fund portion of the Department of Community Health's authorization as well as other revenues received in advance of the period earned as follows:

Deferred Revenue	2005	2004
County Appropriation	\$40,750	\$40,750
General Fund Carry Forward	84,017	76,519
Self-Advocacy Training Program	-	1,268
Total	\$124,767	\$118,537

Due To Other Governmental Units

Due to other governmental units as of September 30th consist of the following:

Due To:	2005	2004
Clinton-Eaton-Ingham CMH – Medicaid Cost Settlement	\$801,322	\$1,013,432
State of Michigan – Cost Settlement – 9/04	-	265,907
State of Michigan – Cost Settlement – 9/05	42,213	-
Various Facilities – Inpatient / Residential	113,863	65,701
Totals	\$957,398	\$1,345,040

Accrued Wages And Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Operating Leases

Ionia County Community Mental Health has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the financial statements.

Ionia County Community Mental Health
Notes To The Financial Statements

Long-term Debt

Compensated Absences

The Authority's full time employees shall accrue paid time off biweekly, based on the number of years of employment. The maximum number of hours an employee may accrue is 27 days (216 hours) for employment of 0 to 6 years; and 33 days (264 hours) for employment over 6 years.

Paid time off may be accumulated to a maximum of 240 hours. Upon retirement, termination for other than just cause, or death, the employee who has completed their initial introductory period will be paid for the unused credited paid time off at their current rate of pay.

Notes Payable

- The Authority entered into three promissory notes totaling \$321,740 to finance the purchase and renovations of three separate buildings.
- The Authority entered into a promissory note totaling \$50,130 to finance the purchase of three vehicles.
- The Authority entered into a promissory note totaling \$141,349 to finance the purchase and installation of office cubicles and a small storage shed.

The terms of the promissory notes are detailed in the following chart.

Description	Date of Loan	Length of Loan	Original Balance	Monthly Payment	Interest Rate
State St. & Renovation	7/25/97	180 mo.	\$102,540	\$913.08	6.75%
Water Street	2/12/98	180 mo.	108,800	968.77	6.75%
Prairie Creek	2/12/98	180 mo.	110,400	983.01	6.75%
Vehicle Loans	6/15/04	48 mo.	50,130	1,116	3.25%
Furniture/Shed	10/28/04	84 mo.	141,349	2,162	3.53%

The changes in the long-term debt are as follows:

Description of Debt	Beg. Bal. 10/01/04	Additions	Reductions	End. Bal. 9/30/05
State Street And Renovation	\$57,053	-	\$8,200	\$48,853
Water Street	77,306	-	6,540	70,766
Prairie Creek	60,377	-	10,722	49,655
Vehicle Loans	47,181	-	12,033	35,148
Furniture/Shed	-	\$141,349	18,160	123,189
Totals	\$241,917	\$141,349	\$55,655	\$327,611

Ionia County Community Mental Health
Notes To The Financial Statements

The annual payment of principle and interest for the next five years (including interest of \$53,187) is as follows:

Year Ended September 30 th ,	Principle and Interest Due
2006	73,713
2007	73,713
2008	70,365
2009	60,319
2010	59,758
2011 – 2013	42,930

Prior Period Adjustment

Prior period adjustments shown in the fund level financial statements in this report represents the adjustment to fund balance due to the following:

Adjustment	2005	2004
Established pension reserve	\$16,818	-
Write-off of old uncollectible receivable	(5,076)	-
Adjust liability for community inpatient	30,400	
Other	867	(\$2,621)
Total Increase (Decrease) To Fund Balance	\$43,009	(\$2,621)

Net Assets

Reserves

A portion of the net assets has been reserved equal to the net amount available in the Internal Service Fund which as been set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

NOTE 4. OTHER INFORMATION

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore, an indeterminable contingency exists for expenditures that may be disallowed by the granting agencies.

Money Purchase Pension Plan

On January 1, 2002 the Authority established the Ionia County CMH Money Purchase Pension Plan. The employees are eligible after completing one year of service and have attained the age of 21. Employees of the Authority on January 1, 2002 are eligible immediately. Each year the Authority will contribute 6% of each employee's compensation to the plan with a maximum of \$40,000 or 100% of annual compensation. Employees will be fully vested after 6 years of service.

Additional information regarding this plan can be obtained by writing the plan administrator at: Ionia County Community Mental Health Board, 375 Apple Tree Drive, Ionia, Michigan 48846.

Deferred Compensation Plan

Employees of the Authority may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State And Local Governments). The deferred compensation plan is available to all full time employees. Under the plan, employees may elect to defer a portion of their salaries and defer paying income taxes on the deferred portion until the withdrawal date.

Under the terms of an Internal Revenue Code Section 457 Plan, all deferred compensation and income attributable to the investment of the deferred compensation, until paid or made available to the employees or beneficiaries, are the property of the Authority subject only to the claims of the Authority's general creditors.

The Authority entered into an administrative agreement with NACoServices, Inc., a subsidiary of the National Association of Counties, and Public Employees Benefit Services Corporation, hereinafter referred to as Nationwide, to endorse and sponsor the plan. Nationwide has been selected to fulfill the responsibility for all administrative requirements necessary for the successful operation of the program.

Additional information regarding this plan can be obtained by writing the plan administrator at: Ionia County Community Mental Health Board, 375 Apple Tree Drive, Ionia, Michigan 48846.

Risk Management

The Authority is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters. The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for auto and general liability, property and crime and vehicle physical damage coverage.

The MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense cost, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds the Authority's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the Authority resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$5,000,000 for liability, \$1,500,000 for vehicle physical damage, and approximately \$1,900,000 for buildings and personal property. The contribution made by the Authority to the MMRMA was \$31,808 for the period July 1, 2004 to June 30, 2005.

Contingency

During the year ended September 30, 2003 the Department of Community Health completed an audit of the Authority for fiscal years ending September 30, 1999 and 2000. As a result of that audit, management was verbally informed of numerous audit issues and, consequently, the Department of Community Health is requesting an unknown amount to be returned to them from the Authority.

The resolutions of these audit issues could have a material impact on the financial statements.

These financial statements do not reflect any contingent liabilities relating to these audit findings.

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDING SEPTEMBER 30, 2005

	Budgeted Amounts			Favorable (Unfavorable) Variances Between Actual and Final Budget
	Original	Final	Actual	
REVENUES				
Local	\$268,400	\$310,000	\$545,077	\$235,077
State	9,882,507	8,910,000	8,711,074	(198,926)
Federal	134,961	112,500	190,092	77,592
Other	59,000	67,500	-	(67,500)
Total revenues	10,344,868	9,400,000	9,446,243	46,243
EXPENDITURES				
Health & welfare - mental health	10,268,068	9,312,500	9,236,072	76,428
Capital outlay	-	-	148,907	(148,907)
Debt service	16,800	20,000	74,889	(54,889)
Other	60,000	67,500	-	67,500
Total expenditures	10,344,868	9,400,000	9,459,868	(59,868)
Excess of revenue over (under) expenditures	-	-	(13,625)	106,111
Other financing sources (uses)				
Proceeds from loans	-	-	141,349	141,349
Total other financing sources (uses)	-	-	141,349	141,349
Excess of revenues and other sources Over (under) expenditures and other uses	-	-	127,724	247,460
Fund balance, beginning of year	683,917	683,917	748,629	-
Prior period adjustment	-	-	43,008	(2,631)
Fund balance, end of year	<u>\$683,917</u>	<u>\$683,917</u>	<u>\$919,361</u>	<u>\$244,829</u>

The notes to the financial statements are an integral part of this statement.

OTHER SUPPLEMENTAL INFORMATION

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF PERSONNEL EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Personnel costs		
Salaries and wages	\$3,332,793	\$3,282,182
Fringe benefits	1,037,929	984,943
Total personnel costs	<u>\$4,370,722</u>	<u>\$4,267,125</u>

The notes to the financial statements are an integral part of this statement.

IONIA COUNTY COMMUNITY MENTAL HEALTH
STATEMENT OF OPERATING EXPENDITURES
FOR THE YEARS ENDING SEPTEMBER 30, 2005 AND 2004

	General Fund	
	2005	2004
Operating Expenditures		
Advertising	\$5,834	\$11,547
Board per diem	12,740	14,030
Books and publications	9,398	5,864
Contracted services	2,010,554	2,071,114
Consumer per diem	3,830	4,270
Capital outlay - under \$5,000	102,333	104,887
Dues	8,430	9,045
Electricity	21,754	23,706
Family flex funds	2,593	4,272
Heat	17,266	20,288
Housing assistance	9,182	6,985
Insurance and bonds	66,879	85,190
Inpatient	674,526	535,377
Meeting expense	11,173	10,122
Miscellaneous	2,828	2,556
Postage	10,351	9,339
Prescriptions	1,267	26
Property taxes	18,280	9,353
Professional fees	51,502	38,382
Rent - building	165,207	103,229
Rent - equipment	20,429	10,027
Repairs & maintenance	68,303	41,634
Residential per diem	1,162,016	1,151,117
Respite per diem	16,350	48,331
Supplies	113,193	51,257
Staff medical	671	1,272
Telephone	86,348	67,244
Training and education	51,304	61,654
Transportation	31,897	20,282
Travel	64,875	56,034
Vehicle expenses	39,826	43,228
Water & sewer	4,211	1,388
Total operating expenditures	\$4,865,350	\$4,623,050

The notes to the financial statements are an integral part of this statement.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Ionia County Community Mental Health
Ionia, Michigan

We have audited the financial statements of the governmental activities and each major fund of Ionia County Community Mental Health (the Authority) as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 6, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters that we reported to management of the Authority in a separate letter dated December 6, 2005.

This report is intended solely for the information and use of the audit committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2005



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LOCAL AUDIT & FINANCE DIV.

MANAGEMENT LETTER

Board of Directors
Ionia County Community Mental Health
Ionia, Michigan

In planning and performing our audit of the financial statements for Ionia County Community Mental Health for the fiscal year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This letter does not affect our audit report dated December 6, 2005, on the financial statements of Ionia County Community Mental Health.

We will review the status of these comments during our next audit engagement. We have discussed these comments and suggestions with management, and will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

Roslund, Prestage & Company, P.C.

Roslund, Prestage & Company, P.C.
Certified Public Accountants

December 6, 2005

Ionia County Community Mental Health
Management Letter

GASB Statement No. 45

Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, was approved by the GASB in June of 2005. Other postemployment benefits are defined as postemployment benefits other than pensions that employees earn during their years of service but that they will not receive until after they stop working. They include all postemployment healthcare benefits and any other type of benefits that are provided separately from a pension plan.

The basic premise of GASB 45 is that other postemployment benefits are earned and should be recognized when the employee provides services, just like wages and compensated absences.

We recommend the Authority consider the effects of GASB 45 on any current or future postemployment benefits packages.

The effective date for the Authority to implement this new standard is for the fiscal year ending September 30, 2009. However, earlier application is encouraged by the GASB.

Miscellaneous Revenue

The miscellaneous revenue account is typically used to record revenues that are small in amount and/or are not received on a regular, ongoing basis. For the current year the miscellaneous revenue account included revenue for MRS and Substance Abuse case management. Both of these revenues are significant in amount and are received on a regular basis.

These revenues are recorded in separate cost centers that consolidate into one "Miscellaneous Revenue" account in the agency-wide income statement. However, we recommend establishing separate revenue accounts for both MRS and Substance Abuse and post all activity for these revenues to these new accounts.